

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

|   |                                |   |                           |
|---|--------------------------------|---|---------------------------|
| Local Government Type<br><input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other |                                | Local Government Name<br><b>Isabella County Medical Care Facility</b> | County<br><b>Isabella</b> |
| Audit Date<br><b>9/30/04</b>  | Opinion Date<br><b>1/11/05</b> | Date Accountant Report Submitted to State:<br><b>3/11/05</b>          |                           |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

|   | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations.                                   | ✓        |                 |              |
| Reports on individual federal financial assistance programs (program audits). |          |                 | ✓            |
| Single Audit Reports (ASLGU).   |          |                 | ✓            |

Certified Public Accountant (Firm Name)

**Page, Olson & Company, P.C., CPA's**

Street Address

**2865 South Lincoln Road - P.O. Box 368**

City

**Mt. Pleasant**

State

**MI**

ZIP

**48808-0368**

Accountant Signature

Date

**3/11/05**

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
AUDITED FINANCIAL STATEMENTS  
YEARS ENDED SEPTEMBER 30, 2004 AND 2003

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
YEARS ENDED SEPTEMBER 30, 2004 AND 2003

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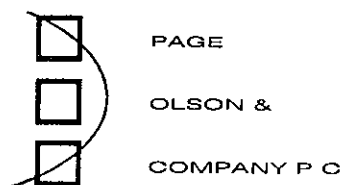
MEDICAL CARE FACILITY  
ISABELLA COUNTY  
YEARS ENDED SEPTEMBER 30, 2004 AND 2003

FAMILY INDEPENDENCE AGENCY (FIA) BOARD

|                                   |                  |
|-----------------------------------|------------------|
| Eileen Rau                        | Chairperson      |
| Michael Mills (10/1/03 - 9/22/04) | Vice-Chairperson |
| Kevin Sawnick (9/22/04 - Present) | Vice-Chairperson |
| Thompson Moffit                   | Member           |

MEDICAL DIRECTOR  
Michael Gross, M.D.

ADMINISTRATOR  
John P. Riley, Jr.



**INDEPENDENT AUDITORS' REPORT ON  
GENERAL-PURPOSE FINANCIAL STATEMENTS  
AND SUPPLEMENTAL FINANCIAL INFORMATION**

January 11, 2005

Family Independence Agency Board  
Medical Care Facility  
Isabella County, Michigan

We have audited the accompanying basic financial statements of the Isabella County Medical Care Facility (the "Facility"), a component unit of Isabella County, Michigan, as of and for the years ended September 30, 2004 and 2003, as listed in the table of contents. These basic financial statements are the responsibility of the Facility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Isabella County Medical Care Facility as of September 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 5 through 8 are not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated January 11, 2005 on our consideration of Isabella County Medical Care Facility' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Family Independence Agency Board  
Isabella County Medical Care Facility  
Isabella County, Michigan

Our audits were performed for the purpose of forming an opinion on the financial statements that collectively comprise the Isabella County Medical Care Facility's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis, all of which are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Page, Olsen & Company*

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED 2004 AND 2003

This Management Discussion and Analysis (MD&A) of the Isabella County Medical Care Facility (Facility) provides an overview of the financial performance and statements of the Facility for the years ended September 30, 2004 and 2003. The information contained in this MD&A should be considered in conjunction with the Facility's financial statements and the accompanying notes, which immediately follow this section.

**SUMMARY OF NET ASSETS**

A condensed summary of the Facility's total net assets at September 30 is as follows:

|  | <u>Business-type Activities</u> |                     |
|--|---------------------------------|---------------------|
|  | <u>2004</u>                     | <u>2003</u>         |
| <b>ASSETS:</b>                                   |                                 |                     |
| Current and Other Assets                         | \$ 6,112,276                    | \$ 11,359,593       |
| Capital Assets - Net of Accumulated Depreciation | <u>8,073,638</u>                | <u>2,535,829</u>    |
| Total Assets                                     | 14,185,914                      | 13,895,422          |
| <b>LIABILITIES:</b>                              |                                 |                     |
| Current Liabilities                              | 865,945                         | 865,616             |
| Long-Term Liabilities                            | <u>7,683,237</u>                | <u>7,978,431</u>    |
| Total Liabilities                                | 8,549,182                       | 8,844,047           |
| <b>NET ASSETS:</b>                               |                                 |                     |
| Invested in Capital Assets - Net of Related Debt | 1,327,053                       | 1,270,693           |
| Restricted - Non Expendable                      | 55,226                          | 55,226              |
| Restricted - Expendable                          | 3,425,731                       | 3,434,653           |
| Unrestricted                                     | <u>828,722</u>                  | <u>290,803</u>      |
| Total Net Assets                                 | <u>\$ 5,636,732</u>             | <u>\$ 5,051,375</u> |

The above analysis focuses on the net assets. The change in net assets of the Facility's business-type activities is discussed below. The Facility's net assets were \$5,636,732 and \$5,051,375 for the years ended September 30, 2004 and 2003. Expendable restricted net assets of \$3,425,731 and \$3,434,653 at September 2004 and 2003 are reported to show legal constraints on the funds. The non-expendable restricted net assets of \$55,226 for both years are reported to show that the funds may not be spent due to the constraints of a trust. Capital assets, net of related debt totaling \$1,327,053 and \$1,270,693 for the years ended September 30, 2004 and 2003 compare the original cost, less depreciation of the Facility's capital assets to the long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt comes due. The remaining amount of net assets of \$828,722 and \$290,803 was unrestricted at September 30, 2004 and 2003.

The unrestricted net assets on the business-type activities represents the accumulated results of all past years' operations. The operating results of the enterprise fund will have a significant impact on the change in unrestricted net assets from year to year.

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED 2004 AND 2003

**SUMMARY OF ACTIVITIES**

A summary of the Statement of Activities, which shows the changes in net assets for the years ended September 2004 and 2003, is as follows:

|                                    | <u>Business-type Activities</u> |                   |
|------------------------------------|---------------------------------|-------------------|
|                                    | <u>2004</u>                     | <u>2003</u>       |
| <b>REVENUE</b>                     |                                 |                   |
| Program Revenue:                   |                                 |                   |
| Charges for Services               | \$ 5,216,184                    | \$ 5,090,298      |
| Operating Grants and Contributions | 47,490                          | 42,020            |
| General Revenue:                   |                                 |                   |
| Property Taxes                     | 1,005,052                       | 1,051,974         |
| Intergovernmental Transfer         | 140,328                         | 97,839            |
| Other                              | 148,548                         | 149,655           |
| Total Revenue                      | <u>6,557,602</u>                | <u>6,431,786</u>  |
| <b>FUNCTION/PROGRAM EXPENSES</b>   |                                 |                   |
| Primary Service                    | 5,358,314                       | 4,914,979         |
| Therapy                            | 386,178                         | 453,721           |
| Barber & Beautician                | 10,112                          | 9,251             |
| Adult Day Care                     | 217,641                         | 185,756           |
| Total Expenses                     | <u>5,972,245</u>                | <u>5,563,707</u>  |
| Increase (Decrease) in Net Assets  | <u>\$ 585,357</u>               | <u>\$ 868,079</u> |

The primary reason for the increase in net assets from 2003 to 2004 is the property tax revenue being received along with increased charges for services and decreased therapy costs.

**SUMMARY OF CASH FLOW ACTIVITIES**

The following shows a summary of the major sources and uses of cash and cash equivalents for the past two years. Cash equivalents are considered cash on hand, demand deposits, and short-term investments (including restricted funds) with a maturity of three months or less.

|  | <u>Business-type Activities</u> |                      |
|--|---------------------------------|----------------------|
|  | <u>2004</u>                     | <u>2003</u>          |
| <b>Cash Flows From:</b>                              |                                 |                      |
| Operating Activities                                 | (719,009)                       | 40,771               |
| Non-Capital Financing Activities                     | 176,328                         | 133,839              |
| Capital and Related Financing Activities             | (4,904,615)                     | 7,801,697            |
| Investing Activities                                 | 112,548                         | 113,655              |
| Net Increase (Decrease) in Cash and Cash Equivalents | <u>(5,334,748)</u>              | <u>8,089,962</u>     |
| Cash and Cash Equivalents October 1,                 | <u>10,616,996</u>               | <u>2,527,034</u>     |
| Cash and Cash Equivalents September 30,              | <u>\$ 5,282,248</u>             | <u>\$ 10,616,996</u> |



MEDICAL CARE FACILITY  
ISABELLA COUNTY  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED 2004 AND 2003

The decrease in cash and cash equivalents for the year ended September 30, 2004 results mainly from the use of proceeds from the capital debt received in the prior year for capital asset additions.

**CAPITAL ASSETS**

At September 30, 2004 and 2003 the Facility had \$10,812,493 and \$5,088,803 invested in a broad range of capital assets, including buildings, equipment and construction in progress. The amounts represent a net increase (including additions and disposals) of \$5,701,029 and \$1,224,326 from the prior years for the years ended September 30, 2004 and 2003.

|                                   | <u>9/30/04</u>          | <u>9/30/03</u>          |
|-----------------------------------|-------------------------|-------------------------|
| Buildings and Improvements        | \$ 2,459,680            | \$ 2,390,714            |
| Equipment                         | 1,606,229               | 1,432,953               |
| Construction in Progress          | <u>6,746,584</u>        | <u>1,287,797</u>        |
| <br>Total Capital Assets          | <br>10,812,493          | <br>5,111,464           |
| <br>Less Accumulated Depreciation | <br><u>(2,738,855)</u>  | <br><u>(2,575,635)</u>  |
| <br>Net Capital Assets            | <br><u>\$ 8,073,638</u> | <br><u>\$ 2,535,829</u> |

Actual additions were \$5,701,029 and \$1,224,326 for the years ended September 30, 2004 and 2003 and included improvements, equipment and additional construction in progress. A capital lease/bond was entered into in 2003 to finance the construction in progress.

We present more detailed information about our capital assets in the notes to the financial statements.

**DEBT**

At September 30, 2004 and 2003, the Facility had \$7,985,737 and \$8,265,931, respectively, in long-term debt obligations outstanding.

|                                      | <u>9/30/04</u>          | <u>9/30/03</u>          |
|--------------------------------------|-------------------------|-------------------------|
| Capital Lease/Bond                   | \$ 7,682,317            | \$ 7,933,834            |
| Compensated Absences Payable         | <u>303,420</u>          | <u>332,097</u>          |
| <br>Total Long-Term Debt Obligations | <br><u>\$ 7,985,737</u> | <br><u>\$ 8,265,931</u> |

We present more detailed information about our long-term obligations in the notes to the financial statements.

**MEDICAL CARE FACILITY  
ISABELLA COUNTY  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEARS ENDED 2004 AND 2003**

**CONTACTING THE FACILITY'S FINANCIAL MANAGEMENT**

The financial report is designed to provide the Facility's taxpayers, customers, investors and creditors with a general overview of the Facility's finances and to demonstrate the Facility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the administrator's office at 1222 North Drive, Mt. Pleasant, Michigan 48858.

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
COMPARATIVE STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2004 AND 2003

|   | Statement I                     |                             |
|---|---------------------------------|-----------------------------|
|   | <u>Business-type Activities</u> |                             |
|   | <u>2004</u>                     | <u>2003</u>                 |
| <b><u>ASSETS</u></b>                                    |                                 |                             |
| <b><u>Current Assets</u></b>                            |                                 |                             |
| Cash  | \$ 671,954                      | \$ 266,437                  |
| Petty Cash  | 200                             | 200                         |
| Accounts Receivable - Patient Accounts Net of Allowance | 796,178                         | 705,432                     |
| Accounts Receivable - Adult Day Care                    | 25,616                          | 20,941                      |
| Property Tax Receivable                                 | 6,416                           | 1,805                       |
| Due From Saginaw Chippewa Indian Tribe                  | -                               | -                           |
| Due From Patient Trust Fund                             | 454                             | 153                         |
| Prepaid Expenses  | <u>1,364</u>                    | <u>14,266</u>               |
| Total Current Assets                                    | 1,502,182                       | 1,009,234                   |
| <b><u>Restricted Assets</u></b>                         |                                 |                             |
| Cash  | 3,147,373                       | 8,772,450                   |
| Investments   | <u>1,462,721</u>                | <u>1,577,909</u>            |
| Total Restricted Assets                                 | 4,610,094                       | 10,350,359                  |
| <b><u>Non-Current Assets</u></b>                        |                                 |                             |
| Building and Equipment                                  | 4,065,908                       | 3,823,667                   |
| Construction in Progress                                | 6,746,585                       | 1,287,797                   |
| Less Accumulated Depreciation                           | <u>(2,738,855)</u>              | <u>(2,575,635)</u>          |
| Net Building and Equipment                              | <u>8,073,638</u>                | <u>2,535,829</u>            |
| <b>TOTAL ASSETS</b>                                     | <b><u>\$ 14,185,914</u></b>     | <b><u>\$ 13,895,422</u></b> |
| <b><u>LIABILITIES AND NET ASSETS</u></b>                |                                 |                             |
| <b><u>Current Liabilities</u></b>                       |                                 |                             |
| Accounts Payable  | \$ 158,585                      | \$ 219,717                  |
| Accounts Payable - Maintenance of Effort                | 18,935                          | 18,200                      |
| Payroll Deductions Payable                              | 90,357                          | 74,302                      |
| Salaries Payable  | 7,035                           | 5,965                       |
| Deferred Revenue  | 288,533                         | 259,932                     |
| Vested Benefits Payable, due within one year            | 32,500                          | 32,500                      |
| Capital Lease Payable, due within one year              | <u>270,000</u>                  | <u>255,000</u>              |
| Total Current Liabilities                               | 865,945                         | 865,616                     |
| <b><u>Non-Current Liabilities</u></b>                   |                                 |                             |
| Long-Term Vested Benefits Payable                       | 270,920                         | 299,597                     |
| Capital Lease Payable (Net of Discount)                 | <u>7,412,317</u>                | <u>7,678,834</u>            |
| Total Non-Current Liabilities                           | <u>7,683,237</u>                | <u>7,978,431</u>            |
| <b>TOTAL LIABILITIES</b>                                | <b>8,549,182</b>                | <b>8,844,047</b>            |
| <b><u>Net Assets</u></b>                                |                                 |                             |
| Invested in Capital Assets, Net of Related Debt         | 1,327,053                       | 1,270,693                   |
| Restricted-Non Expendable                               | 55,226                          | 55,226                      |
| Restricted-Expendable                                   | 3,425,731                       | 3,434,653                   |
| Unrestricted  | <u>828,722</u>                  | <u>290,803</u>              |
| <b>TOTAL NET ASSETS</b>                                 | <b><u>5,636,732</u></b>         | <b><u>5,051,375</u></b>     |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>                 | <b><u>\$ 14,185,914</u></b>     | <b><u>\$ 13,895,422</u></b> |

The accompanying notes are an integral part of these financial statements.

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
COMPARATIVE STATEMENT OF ACTIVITIES  
SEPTEMBER 30, 2004 AND 2003

Statement II

|   | 2004                |                      |                                |   |  | 2003                |                      |                                |   |  |
|---|---------------------|----------------------|--------------------------------|---|--|---------------------|----------------------|--------------------------------|---|--|
|   | Program Revenues    |                      | Business-type Activities       |   |  | Program Revenues    |                      | Business-type Activities       |   |  |
|   | Expenses            | Charges for Services | Operating Grants/Contributions | Net (Expense) Revenue and Changes in Net Assets |  | Expenses            | Charges for Services | Operating Grants/Contributions | Net (Expense) Revenue and Changes in Net Assets |  |
| <b>Functions / Programs</b>               |                     |                      |                                |   |  |                     |                      |                                |   |  |
| Primary Government-                       |                     |                      |                                |   |  |                     |                      |                                |   |  |
| Business-type Activities:                 |                     |                      |                                |   |  |                     |                      |                                |   |  |
| Primary Services                          | \$ 5,358,314        | \$ 4,084,657         | \$ 47,490                      | \$ (1,226,167)                                  |  | \$ 4,914,979        | \$ 4,016,727         | \$ 42,020                      | \$ (856,232)                                    |  |
| Therapy                                   | 386,178             | 957,942              | -                              | 571,764   |  | 453,721             | 904,986              | -                              | 451,265   |  |
| Barber & Beautician                       | 10,112              | 11,990               | -                              | 1,878   |  | 9,251               | 11,406               | -                              | 2,155   |  |
| Adult Day Care                            | 217,641             | 161,595              | -                              | (56,046)  |  | 185,756             | 157,179              | -                              | (28,577)  |  |
| <b>Total Governmental Activities</b>      | <b>\$ 5,972,245</b> | <b>\$ 5,216,184</b>  | <b>\$ 47,490</b>               | <b>(708,571)</b>                                |  | <b>\$ 5,563,707</b> | <b>\$ 5,090,298</b>  | <b>\$ 42,020</b>               | <b>(431,389)</b>                                |  |
| <b>General Revenues:</b>                  |                     |                      |                                |   |  |                     |                      |                                |   |  |
| Property Taxes, Levied for Debt Services  |                     |                      |                                | 1,005,052                                       |  |                     |                      |                                | 1,051,974                                       |  |
| Interest and Investment Earnings          |                     |                      |                                | 112,548   |  |                     |                      |                                | 113,655   |  |
| Rents                                     |                     |                      |                                | 36,000  |  |                     |                      |                                | 36,000  |  |
| Workers' Compensation Dividend            |                     |                      |                                | -   |  |                     |                      |                                | -   |  |
| Intergovernmental Transfer                |                     |                      |                                | 140,328   |  |                     |                      |                                | 97,839  |  |
| <b>Total General Revenues</b>             |                     |                      |                                | <b>1,293,928</b>                                |  |                     |                      |                                | <b>1,299,468</b>                                |  |
| <b>Change in Net Assets</b>               |                     |                      |                                | <b>585,357</b>                                  |  |                     |                      |                                | <b>868,079</b>                                  |  |
| <b>Net Assets - Beginning of the Year</b> |                     |                      |                                | <b>5,051,375</b>                                |  |                     |                      |                                | <b>4,183,296</b>                                |  |
| <b>Net Assets - End of the Year</b>       |                     |                      |                                | <b>\$ 5,636,732</b>                             |  |                     |                      |                                | <b>\$ 5,051,375</b>                             |  |

The accompanying notes are an integral part of these financial statements.

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN  
RETAINED EARNINGS - ENTERPRISE FUND  
YEARS ENDED SEPTEMBER 30, 2004 AND 2003

|  | Statement III       |                     |
|--|---------------------|---------------------|
|  | <u>2004</u>         | <u>2003</u>         |
| Operating Revenue                                    | \$ 5,216,184        | \$ 5,090,298        |
| Operating Expenses                                   | <u>5,892,578</u>    | <u>5,483,635</u>    |
| Operating Income (Loss) Before Building Depreciation | (676,394)           | (393,337)           |
| Less Depreciation - Building                         | <u>(79,667)</u>     | <u>(80,072)</u>     |
| Operating Income (Loss)                              | (756,061)           | (473,409)           |
| Non-Operating Revenue (Expenses)                     | 1,293,928           | 1,299,468           |
| Other Financing Sources                              | <u>47,490</u>       | <u>42,020</u>       |
| Net Income (Loss)                                    | 585,357             | 868,079             |
| Retained Earnings - October 1                        | <u>5,051,375</u>    | <u>4,183,296</u>    |
| Retained Earnings - September 30                     | <u>\$ 5,636,732</u> | <u>\$ 5,051,375</u> |

The accompanying notes are an integral part of these financial statements.

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
COMPARATIVE STATEMENT OF CASH FLOWS - ENTERPRISE FUND  
YEARS ENDED SEPTEMBER 30, 2004 AND 2003

|   | Statement IV        |                      |
|---|---------------------|----------------------|
|   | 2004                | 2003                 |
| <b><u>Cash Flows from Operating Activities</u></b>  |                     |                      |
| Receipts from Customers and Others  | \$ 5,161,965        | \$ 5,304,556         |
| Payments to Suppliers   | (2,908,805)         | (1,394,833)          |
| Payments to Employees   | (2,972,169)         | (3,868,952)          |
| Net Cash Provided (Used) by Operating Activities  | (719,009)           | 40,771               |
| <b><u>Cash Flows from Non-Capital Financing Activities</u></b>  |                     |                      |
| Rental Receipts   | 36,000              | 36,000               |
| Workers' Comp Dividend  | -                   | -                    |
| Intergovernmental Transfers   | 140,328             | 97,839               |
| Net Cash Provided (Used) by Non-Capital Financing Activities  | 176,328             | 133,839              |
| <b><u>Cash Flows from Capital and Related Financing Activities</u></b>                                |                     |                      |
| Property Tax Collections  | 1,000,441           | 1,050,169            |
| Proceeds from Capital Debt  | -                   | 7,930,352            |
| Principal Payments on Capital Debt  | (255,000)           | -                    |
| Capital Contributions   | 47,490              | 42,020               |
| Acquisition and Construction of Capital Assets  | (5,381,119)         | (1,087,548)          |
| Interest Paid on Capital Debt   | (316,427)           | (133,296)            |
| Net Cash Provided (Used) by Capital and Related Financing Activities                                  | (4,904,615)         | 7,801,697            |
| <b><u>Cash Flows from Investing Activities</u></b>  |                     |                      |
| Interest Received   | 112,548             | 113,655              |
| Net Increase (Decrease) in Cash and Cash Equivalents  | (5,334,748)         | 8,089,962            |
| Cash and Cash Equivalents at October 1,   | 10,616,996          | 2,527,034            |
| Cash and Cash Equivalents , September 1,  | <u>\$ 5,282,248</u> | <u>\$ 10,616,996</u> |
| <b><u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</u></b> |                     |                      |
| Operating Income  | \$ (756,061)        | \$ (473,409)         |
| Depreciation  | 163,220             | 163,150              |
| Changes in Assets and Liabilities   |                     |                      |
| (Increase) Decrease in Accounts Receivable - Patient Accounts   | (90,746)            | 20,392               |
| (Increase) Decrease in Accounts Receivable - Adult Day Care   | (4,675)             | 5,298                |
| (Increase) Decrease in Prepaid Expenses   | 12,902              | 33,758               |
| (Increase) Decrease in Due from Saginaw Chippewa Indian Tribe   | -                   | 96,000               |
| (Increase) Decrease in Due from Patient Trust   | (301)               | (44)                 |
| Increase (Decrease) in Accounts Payable   | (61,132)            | 112,994              |
| Increase (Decrease) in Accounts Payable - MOE   | 735                 | (6,887)              |
| Increase (Decrease) in Salaries Payable   | 1,070               | 939                  |
| Increase (Decrease) in Payroll Deductions Payable   | 16,055              | 7,231                |
| Increase (Decrease) in Vested Benefits Payable  | (28,677)            | 22,495               |
| Increase (Decrease) in Deferred Revenue   | 28,601              | 58,854               |
| Net Cash Provided (Used) by Operations  | <u>\$ (719,009)</u> | <u>\$ 40,771</u>     |
| <b><u>Reconciliation of Cash and Cash Equivalents per Statement of Net Assets:</u></b>                |                     |                      |
| Cash-Current  | \$ 671,954          | \$ 266,437           |
| Petty Cash  | 200                 | 200                  |
| Restricted Cash   | 3,147,373           | 8,772,450            |
| Restricted Investments  | 1,462,721           | 1,577,909            |
| Total Cash and Cash Equivalents   | <u>\$ 5,282,248</u> | <u>\$ 10,616,996</u> |

The accompanying notes are an integral part of these financial statements.

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
SEPTEMBER 30, 2004

Statement V

|                        | <u>2004</u>   | <u>2003</u>   |
|------------------------|---------------|---------------|
| <u>ASSETS</u>          |               |               |
| Cash                   | <u>\$ 825</u> | <u>\$ 739</u> |
| <br><u>LIABILITIES</u> |               |               |
| Due to General Fund    | \$ 371        | \$ 153        |
| Due to Patients        | <u>454</u>    | <u>586</u>    |
| <br>Total Liabilities  | <u>\$ 825</u> | <u>\$ 739</u> |

The accompanying notes are an integral part of these financial statements.

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2004 and 2003

Statement VI

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Isabella County Medical Care Facility is organized pursuant to the Michigan Social Welfare Act, Act 280 of 1939. Section 58 of this Act authorizes the County Family Independence Agency Board, with the approval of the Board of Commissioners, to operate a county medical care facility.

The fund and agency accounts related to the operation of the Facility are appropriately included as a component unit of Isabella County, Michigan, and are an integral part of the County's reporting entity in accordance with the requirements of Statement 14 of the Governmental Accounting Standard Board (GASB), *The Financial Reporting Entity*. The basic financial statements of the Facility are incorporated in the County's Comprehensive Financial Report as an enterprise fund activity. Complete financial statements of Isabella County, Michigan, the primary government of the facility, can be obtained directly from the County's administrative office at 200 North Main Street, Mt. Pleasant, Michigan 48858.

B. SCOPE OF SERVICES

Through the provisions of the Michigan Social Welfare Act, Act 280 of 1939, Section 58, authorization is given to the County Family Independence Agency Board, with the approval of the Board of Commissioners, "to supervise and be responsible for the operation of a county medical care facility...such facility shall provide a program of planned and continuing medical treatment and nursing care under the general direction and supervision of a licensed physician employed full or part-time...". The Isabella County Medical Care Facility is licensed through the Michigan Department of Public Health as an 80 bed skilled nursing facility (SNF).

In addition to the services provided as a licensed skilled care facility, the Medical Care Facility provides medical services on an outpatient basis to the residents of the local and surrounding communities. The Facility's Physical Therapy and Occupational Therapy Departments are classified as certified Medicare/ Medicaid providers and are the sole providers in Isabella County of these services to Medicare and Medicaid patients.

Additionally, the Facility accepts many inpatients upon discharge from the adjacent and attached Hospital. As a result, the Facility provides a higher intensity of services due to the acute medical needs of such patients.

Mid-year of 1999, the Facility expanded their services to include an Adult Day Care. The Adult Day Care offers families in the community an opportunity for daytime respite in the care of those individuals with Alzheimer's or similar conditions requiring 24-hour supervision.

Management believes the scope of services provided by the Facility are unusual when compared to other skilled care nursing facilities. The range and volume of specialized services to the community's public and private entities are beyond the standard operations of a conventional Medical Care Facility. The specialized services offered by the Facility are an eminent benefit to the community.



MEDICAL CARE FACILITY  
ISABELLA COUNTY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2004 and 2003

Statement VI

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental-activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Facility's government-wide activities are considered to be business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Normally, separate financial statements would be provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds would be reported as separate columns in the fund financial statements. The Facility is made up of only one fund. This fund is an enterprise fund - proprietary fund type, and as such, all fund statements presented represent the Facility as a whole.

D. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

Government-Wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2004 and 2003

Statement VI

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (Continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal on-going operations. The principal operating revenues of the Isabella County Medical Care Facility are charges to patients for services. Patient service revenue is recorded at established gross rates and is reduced by third party contractual allowances. The third party contractual allowances reflect the difference between gross charges and cost for patients reimbursed on a cost basis (Medicare/Medicaid/CMCH-PT).

Reimbursement principles for the Medicare/Medicaid programs are subject to judgmental interpretation and to audits which could result in subsequent adjustments to revenue. Management of the Isabella County Medical Care Facility believes that it has properly applied reimbursement principles in the determination of revenue from the programs. Any differences between estimated provisions and final settlements with these programs are reported as non-operating revenue or expenses in the year final settlement occurs.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Facility.

The Facility reports the following major proprietary fund:

A single enterprise fund accounts for the activities of the Facility.

Additionally, the Facility has fiduciary responsibility for the following agency fund:

The Patient Fund is an agency fund in which patients deposit funds for personal and ancillary expenses.

E. THIRD PARTY REIMBURSEMENT

A substantial portion of the Isabella County Medical Care Facility's revenue is derived from services to patients under Medicare and Medicaid insurance programs whose payment principles were both based upon paying the lower of program costs, subject to limitations, or program charges, or a predetermined reimbursement amount per case. The program costs and the predetermined reimbursement amounts are determined by contractual agreement and by regulations promulgated under the Social Security Act and by the Michigan Family Independence Agency. Medicare has established a listing of reimbursement amounts per type of patient cared for based on the evaluated level of care needed. Provision is made in the financial statements to reflect the amounts earned and due from third party payers based upon these principles.

As a result of participation in these programs, the financial condition of the Medical Care Facility is dependent upon the third parties' ability to reimburse the Facility.

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2004 and 2003

Statement VI

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. CASH AND INVESTMENTS

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments (including restricted funds) with a maturity of three months or less when acquired. Investments are stated at fair value.

G. RECEIVABLES AND PAYABLES

Property tax and other trade receivables are shown net of an allowance for uncollectible amounts. The taxing units that comprise the district levy taxes in December. The final collection date is February 28, after which uncollected taxes are turned over to the respective counties which pay off the delinquent real assessments and add the personal assessments to the county delinquent tax rolls.

The allowance for uncollectible amounts for the trade receivables is based on a weighted average of outpatient receivables with a percentage allocated for prior and current years along with a flat amount determined by management for inpatient receivables.

H. INVENTORIES AND PREPAID ITEMS

Inventories of consumable medical supplies have not been recorded as assets in the financial statements. The costs of such inventory items are recorded as expenditures at the time the items are purchased. The quantities of these inventories are considered to be stable in nature from year to year and not prone to materially varying fluctuations nor are they material in total.

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items.

I. RESTRICTED ASSETS

for Vested Benefits is recorded as a separate investment account set aside to fund employee vested sick and vacation benefits and the net assets are restricted in the amount of \$377,462. The Funded Depreciation Restricted Asset is recorded as a separate investment account for the assets earmarked for future capital outlay expenses and the net assets are restricted in the amount of \$1,462,721. The Restricted Assets for Capital Projects is recorded in the project accounts in the amount of \$2,329,278. This is reduced by the amount of debt not currently attributed to the construction in progress in the amount of \$935,732 to arrive at the restricted net asset in the amount of \$1,393,546.

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2004 and 2003

Statement VI

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. RESTRICTED ASSETS (Continued)

The Drayton and Minnie Miley Trust was established by Inez Vetter in August 1973, with a deposit to the Trust of assets in the approximate amount of \$61,362. The Trustees of the Drayton and Minnie Miley Trust are the Medical Care Facility's Administrator, Medical Director, and Director of Nursing. The Trustees may authorize the Trust monies to be used for the purchase of equipment to be used in conjunction with patient care. The terms of the Trust authorize the Trustees to expend any and all income as may be accumulated through the date of equipment purchase but the corpus of the Trust may not be invated in an amount in excess of 5% of the presently existing corpus with any single purchase, or in an amount in excess of 10% of said corpus for all purchases so made during any one calendar year. As of September 30, 2004 the Trust assets consist of \$61,362 of corpus amount and \$32,755 of unexpended accumulated income. The entire amount of \$94,117 is recorded as restricted net assets of which \$38,891 is expendable and \$55,226 is non-expendable.

The Isabella County Medical Care Facility Building, Equipment and Patient Care Trust was established by the Isabella County Social Services Board in 1974 to receive donations made by various individuals and organizations to the Isabella County Medical Care Facility. All donations are deposited to the Trust and the assets are used for equipment purchases. As of September 30, 2004 the Trust assets consist of \$153,111 and the entire amount is recorded as expendable restricted net assets.

A reconciliation of restricted net assets is as follows:

|   | <u>2004</u>         | <u>2003</u>         |
|---|---------------------|---------------------|
| Restricted for:                         |                     |                     |
| Vested Employee Sick and Vacation Leave | \$ 377,462          | \$ 354,890          |
| Funding of Depreciation                 | 1,462,721           | 1,577,909           |
| Capital Projects                        | 1,393,546           | 1,296,594           |
| Drayton and Minnie Miley Trust          | 94,117              | 96,375              |
| Patient Equipment Trust                 | <u>153,111</u>      | <u>164,111</u>      |
| Total Restricted Net Assets             | <u>\$ 3,480,957</u> | <u>\$ 3,489,879</u> |
|   | <u>2004</u>         | <u>2003</u>         |
| Restricted Net Assets per Statement I:  |                     |                     |
| Expendable                              | \$ 3,425,731        | \$ 3,434,653        |
| Non-Expendable                          | <u>55,226</u>       | <u>55,226</u>       |
| Total Restricted Net Assets             | <u>\$ 3,480,957</u> | <u>\$ 3,489,879</u> |

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2004 and 2003

Statement VI

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. CAPITAL ASSETS

Capital assets, which include buildings, improvements, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the facility as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The facility does not have infrastructure type assets.

Buildings, improvements, and equipment are depreciated using the straight-line method over the following useful lives:

| <u>Asset</u>              | <u>Estimated<br/>Useful Life in<br/>Years</u> |
|---------------------------|---|
| Building and Improvements | 5-50  |
| Equipment                 | 5-20  |

K. COMPENSATED ABSENCES

Using the criteria established in Governmental Accounting Standards Board (GASB) Statement 16, a liability for compensated absences that is attributable to services already rendered and that is not contingent on a specific event that is outside the control of the employer and employee should be accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the employer should be accounted for in the period those services are rendered or those events take place. Criteria for recognition of these two basic types of compensated absences are as follows:

- 1) Vacation and Similar Leave Absences - should be accrued as a liability as the benefits are earned by the employees if both of these conditions are met:
  - a) The employees' rights to receive compensation are attributable to services already rendered.
  - b) It is probable that the employer will compensate the employees for such benefits through paid time off or some other means, such as cash payments at termination or retirement.

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2004 and 2003

Statement VI

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. COMPENSATED ABSENCES (Continued)

- 2) Sick and Similar Leave Absences - should be accrued using one of the following termination approaches:
  - a) Under the Termination Payment Method, a liability should be accrued as the benefits are earned by the employees if it is probable that the employer will compensate the employees for the benefits through cash payments conditioned on the employees' termination or retirement.
  - b) Under the Vesting Method, a liability should be based on the sick leave accumulated at the balance sheet date by those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments.

The Medical Care Facility employee agreements state that accumulated employee sick leave benefits will be paid upon death, retirement, or severance of employment in accordance with certain stated percentages based on length of employment and that accumulated employee vacation pay will also be paid. Accordingly, unused employee sick leave benefits accrued using the Vesting Method and accumulated vacation benefits meet the definition of "compensated absences" and represent a future obligation of the Medical Care Facility as of September 30, 2004.

L. LONG-TERM OBLIGATIONS

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Capital lease/bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Capital lease/bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

M. COMPARATIVE DATA/RECLASSIFICATIONS

Certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

N. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2004 and 2003

Statement VI

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. ACCOUNTING CHANGES

Effective October 1, 2002, the facility implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (GASB No. 34). Changes to the Facility's financial statements as a result of GASB No. 34 are as follows:

A Management Discussion and Analysis section providing analysis of the Facility's overall financial position and results of operations has been included.

The Statement of Cash Flows has been prepared using the gross method.

The Drayton and Minnie Miley Trust and the Isabella County Medical Care Facility Building, Equipment and Patient Care Trust Funds were blended with the Enterprise Fund of the facility as the assets may be used to support the programs of the Facility.

The Fund Equity previously reported on the Facility's Fund Balance Sheet was adjusted at September 30 to arrive at the net assets reported in the Statement of Net Assets as follows:

|  | <u>2004</u>         | <u>2003</u>         |
|--|---------------------|---------------------|
| Net Assets-September 30,                     | 5,028,714           | \$ 3,889,046        |
| Adjustments:                                 |                     |                     |
| Fixed Assets Consistent with Updated Policy  | 22,661              | 48,809              |
| Restricted Funds brought into Facility Funds | <u>-</u>            | <u>245,441</u>      |
|  | <u>\$ 5,051,375</u> | <u>\$ 4,183,296</u> |

Except as noted above, the adoption of GASB 34 had no effect on the basic financial statements except for the classification of net assets in accordance with the Statement and reflection of capital contributions as changes in net assets.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A budget was adopted by the Family Independence Agency Board for the Isabella County Medical Care Facility. The budget for an Enterprise Fund is an Informational Summary. An Informational Summary is not required to be presented in the financial statements for an Enterprise Fund, thus no comparison to the budget has been presented.

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2004 and 2003

Statement VI

NOTE 3 - CASH AND INVESTMENTS

Deposits are carried at cost. Deposits are in two financial institutions in the name of the Facility's Administrator. Michigan Compiled Laws, Section 129.91, authorizes the Facility to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations.

Investments can also be made in bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States; repurchase agreements consisting of bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States; bankers' acceptances of the United States banks; obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service; commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase; mutual funds registered under the investment company act of 1940, with the authority to purchase only investments by a public corporation; obligation described above if purchased through an inter-local agreement under the urban cooperations act of 1967, PA 7, MCL 124.501 to 124.512; investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118, and the investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. The Facility's deposits are in accordance with statutory authority.

Generally accepted accounting principles require that Facility investments be classified into categories to give an indication of the level of risk assumed. Category 1 includes investments that are insured or registered or for which the securities are held by the Facility or its agent in the Facility's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Facility's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Facility's name.

An exception to the classification requirement is investments in an investment pool that are not evidenced by securities that exist in physical or book entry form. At September 30, 2004 and 2003, the Facility's investment held by Isabella County of \$1,462,721 and \$1,577,909, respectively is of this type and complies with legal authority as stated above.



MEDICAL CARE FACILITY  
ISABELLA COUNTY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2004 and 2003

Statement VI

NOTE 3 - CASH AND INVESTMENTS (Continued)

At year end, the carrying amount of the Medical Care Facility's cash and investments was comprised of the following:

|                                      | 2004                            |                    |                             |
|--------------------------------------|---------------------------------|--------------------|-----------------------------|
|                                      | Business-<br>Type<br>Activities | Fiduciary<br>Funds | Total Primary<br>Government |
| Cash on Hand                         | \$ 200                          | \$ 523             | \$ 723                      |
| Deposits with Financial Institutions | 261,891                         | 454                | 262,345                     |
| Deposits with County Treasurer       | 3,557,436                       | -                  | 3,557,436                   |
| Investments Held by County Treasurer | 1,462,721                       | -                  | 1,462,721                   |
| Total Cash and Investments           | <u>\$ 5,282,248</u>             | <u>\$ 977</u>      | <u>\$ 5,283,225</u>         |

|                                      | 2003                            |                    |                             |
|--------------------------------------|---------------------------------|--------------------|-----------------------------|
|                                      | Business-<br>Type<br>Activities | Fiduciary<br>Funds | Total Primary<br>Government |
| Cash on Hand                         | \$ 200                          | \$ 586             | \$ 786                      |
| Deposits with Financial Institutions | 274,307                         | 153                | 274,460                     |
| Deposits with County Treasurer       | 8,764,580                       | -                  | 8,764,580                   |
| Investments Held by County Treasurer | 1,577,909                       | -                  | 1,577,909                   |
| Total Cash and Investments           | <u>\$ 10,616,996</u>            | <u>\$ 739</u>      | <u>\$ 10,617,735</u>        |

Federal Deposit Insurance Corporation (FDIC) coverage of Facility deposits were as follows:

|                 | 2004       |               |               |
|-----------------|------------|---------------|---------------|
|                 | Insured    | Uninsured     | Total         |
| Carrying Amount | \$ 112,155 | \$ 5,171,070  | \$ 5,283,225  |
| Bank Balances   | \$ 200,000 | \$ 10,417,735 | \$ 10,617,735 |

|                 | 2003       |               |               |
|-----------------|------------|---------------|---------------|
|                 | Insured    | Uninsured     | Total         |
| Carrying Amount | \$ 112,689 | \$ 10,505,046 | \$ 10,617,735 |
| Bank Balances   | \$ 197,697 | \$ 10,497,361 | \$ 10,695,058 |

County Deposits

The actual bank balance of Cash and Investments held in the County Treasurer's name for the facility is insured only to the extent that some or all of the County's available insurance coverages could be allocated to these specific accounts. The carrying value, as indicated above, for these cash and investments held in the County Treasurer's name was \$5,020,157 and \$10,342,489 at September 30, 2004 and 2003 respectively. The amount of FDIC coverage applicable to the Facility of the actual bank balance is unknown.

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2004 and 2003

Statement VI

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts Receivable - Patient Accounts consist of the following:

|                                 | <u>2004</u>       | <u>2003</u>       |
|---------------------------------|-------------------|-------------------|
| Medicare                        | \$ 294,078        | \$ 245,033        |
| Medicaid                        | 232,559           | 153,857           |
| Private/Other                   | <u>287,541</u>    | <u>332,542</u>    |
|                                 | 814,178           | 731,432           |
| Less Estimated Uncollectibles   | <u>(18,000)</u>   | <u>(26,000)</u>   |
| Net Patient Accounts Receivable | <u>\$ 796,178</u> | <u>\$ 705,432</u> |

NOTE 5 - CAPITAL ASSETS

Capital asset activity of the Facility's business-type activities was as follows:

|                                | <u>2004</u>                      |                     |                              |
|--------------------------------|----------------------------------|---------------------|------------------------------|
|                                | Beginning<br>Balance<br>10/01/03 | Additions           | Ending<br>Balance<br>9/31/04 |
| Building and Improvements      | \$ 2,390,714                     | \$ 68,966           | \$ 2,459,680                 |
| Equipment                      |                                  |                     |                              |
| Administration                 | 488,554                          | 50,845              | 539,399                      |
| Maintenance                    | 18,706                           | -                   | 18,706                       |
| Laundry                        | 4,726                            | -                   | 4,726                        |
| Housekeeping                   | 198                              | 31,346              | 31,544                       |
| Nursing                        | 552,608                          | 91,085              | 643,693                      |
| Physical Therapy               | 273,252                          | -                   | 273,252                      |
| Activities                     | 19,591                           | -                   | 19,591                       |
| Occupational Therapy           | 12,291                           | -                   | 12,291                       |
| Adult Day Care                 | 17,590                           | -                   | 17,590                       |
| Beauty Shop                    | 695                              | -                   | 695                          |
| Other                          | 44,742                           | -                   | 44,742                       |
| Construction in Progress       | <u>1,287,797</u>                 | <u>5,458,787</u>    | <u>6,746,584</u>             |
| Total Cost                     | 5,111,464                        | 5,701,029           | 10,812,493                   |
| Total Accumulated Depreciation | <u>(2,575,635)</u>               | <u>(163,220)</u>    | <u>(2,738,855)</u>           |
| Net Fixed Assets               | <u>\$ 2,535,829</u>              | <u>\$ 5,537,809</u> | <u>\$ 8,073,638</u>          |

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
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NOTE 5 - CAPITAL ASSETS (Continued)

|                                | 2003                             |               |           |                              |
|--------------------------------|----------------------------------|---------------|-----------|------------------------------|
|                                | Beginning<br>Balance<br>10/01/02 | Additions     | Deletions | Ending<br>Balance<br>9/31/03 |
| Building and Improvements      | \$ 2,390,714                     | \$ -          | \$ -      | \$ 2,390,714                 |
| Equipment                      |                                  |               |           |                              |
| Administration                 | 469,497                          | 19,057        | -         | 488,554                      |
| Maintenance                    | 18,706                           | -             | -         | 18,706                       |
| Laundry                        | 4,726                            | -             | -         | 4,726                        |
| Housekeeping                   | 198                              | -             | -         | 198                          |
| Nursing                        | 541,554                          | 11,054        | -         | 552,608                      |
| Physical Therapy               | 273,252                          | -             | -         | 273,252                      |
| Activities                     | 19,591                           | -             | -         | 19,591                       |
| Occupational Therapy           | 12,291                           | -             | -         | 12,291                       |
| Adult Day Care                 | 17,590                           | -             | -         | 17,590                       |
| Beauty Shop                    | 695                              | -             | -         | 695                          |
| Other                          | 44,742                           | -             | -         | 44,742                       |
| Construction in Progress       | 93,582                           | 1,194,215     | -         | 1,287,797                    |
| <br>Total Cost                 | <br>3,887,138                    | <br>1,224,326 | <br>-     | <br>5,111,464                |
| Total Accumulated Depreciation | (2,412,485)                      | (163,150)     | -         | (2,575,635)                  |
| Net Capital Assets             | \$ 1,474,653                     | \$ 1,061,176  | \$ -      | \$ 2,535,829                 |

Depreciation expense was charged to activities of the Facility and reported on the government-wide statements as follows:

|                                | 2004       | 2003       |
|--------------------------------|------------|------------|
| Business-type Activities:      |            |            |
| Primary Services               | \$ 151,744 | \$ 152,377 |
| Therapy                        | 9,005      | 8,751      |
| Barber & Beautician            | 139        | 139        |
| Adult Day Care                 | 2,332      | 1,883      |
| Total Business-type Activities | \$ 163,220 | \$ 163,150 |

A donation of land was received at the inception of the Facility. The value of the land is not recorded since an amount cannot be reasonably determined.

MEDICAL CARE FACILITY  
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NOTE 6 - DEFERRED REVENUE

Below is a breakdown of the Deferred Revenue Balance:

|   | <u>2004</u>       | <u>2003</u>       |
|---|-------------------|-------------------|
| Patient Pay Prebills  | \$ 35,932         | \$ 37,751         |
| Private Pay Prebills  | 57,970            | 64,480            |
| Transfers from Saginaw Chippewa Indian Tribe for which<br>Corresponding Expenditures have not been made | <u>194,631</u>    | <u>157,701</u>    |
|   | <u>\$ 288,533</u> | <u>\$ 259,932</u> |

The entire deferred revenue balance is available but not yet earned.

NOTE 7 - LONG-TERM OBLIGATIONS

The Facility entered into a long-term capital lease/bond for the construction project with the Isabella County Building Authority. The Facility's other long-term obligations included compensated absences.

The long-term obligation activity can be summarized as follows:

|  | <u>2004</u>                      |                  |                                       |                                  |   |
|--|----------------------------------|------------------|---------------------------------------|----------------------------------|---|
|  | <u>Balance</u><br><u>10/1/03</u> | <u>Additions</u> | <u>Payments/</u><br><u>Reductions</u> | <u>Balance</u><br><u>9/30/04</u> | <u>Amount Due</u><br><u>Within One</u><br><u>Year</u> |
| Capital Lease/Bond                                 | \$ 8,000,000                     | \$ -             | \$ 255,000                            | \$ 7,745,000                     | \$ 270,000  |
| Less deferred amounts:                             |                                  |                  |                                       |                                  |   |
| For Issuance Discounts                             | <u>(66,166)</u>                  | <u>-</u>         | <u>(3,483)</u>                        | <u>(62,683)</u>                  |   |
| Total Capital Lease                                | 7,933,834                        | -                | 251,517                               | 7,682,317                        |   |
| Compensated Absences                               | <u>332,097</u>                   | <u>44,800</u>    | <u>73,477</u>                         | <u>303,420</u>                   | 32,500  |
| Total Business-type Activity Long-Term Liabilities | <u>\$ 8,265,931</u>              | <u>\$ 44,800</u> | <u>\$ 324,994</u>                     | <u>\$ 7,985,737</u>              |   |

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NOTE 7 - LONG-TERM OBLIGATIONS (Continued)

|  | 2003               |              |                         |                    |                                  |
|--|--------------------|--------------|-------------------------|--------------------|----------------------------------|
|  | Balance<br>10/1/02 | Additions    | Payments/<br>Reductions | Balance<br>9/30/03 | Amount Due<br>Within One<br>Year |
| Capital Lease/Bond                                 | \$ -               | \$ 8,000,000 | \$ -                    | \$ 8,000,000       | \$ 255,000                       |
| Less deferred amounts:                             |                    |              |                         |                    |                                  |
| Discounts  | -                  | (69,648)     | (3,482)                 | (66,166)           |                                  |
| Total Capital Lease                                | -                  | 7,930,352    | (3,482)                 | 7,933,834          |                                  |
| Compensated Absences                               | 309,602            | 22,495       | -                       | 332,097            | 32,500                           |
| Total Business-type Activity Long-Term Liabilities | \$ 309,602         | \$ 7,952,847 | \$ (3,482)              | \$ 8,265,931       |                                  |

Capital Lease

Issued: December 15, 2002

Original Amount: \$8,000,000

Interest: 3.00 - 4.60% (due May 1 and November 1)

Principal Due: May 1,

| Fiscal Year Ended   | Interest     | Principal    |
|---------------------|--------------|--------------|
| 2005                | \$ 312,260   | \$ 270,000   |
| 2006                | 304,160      | 285,000      |
| 2007                | 295,610      | 300,000      |
| 2008                | 286,610      | 315,000      |
| 2009                | 276,373      | 335,000      |
| 2010-2014           | 1,182,092    | 1,940,000    |
| 2015-2019           | 748,950      | 2,485,000    |
| 2020-2022           | 169,165      | 1,815,000    |
| Total Capital Lease | \$ 3,575,220 | \$ 7,745,000 |

Compensated Absences

Amount estimated at September 30, 2004

\$ 303,420

NOTE 8 - THIRD PARTY COST REPORT SETTLEMENT AMOUNTS AND APPEAL ISSUES

As explained in the Summary of Significant Accounting Policies, the third party reimbursement process results in amounts due to/receivable from the third parties as a result of the cost settlement procedures.

MEDICAL CARE FACILITY  
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NOTE 8 - THIRD PARTY COST REPORT SETTLEMENT AMOUNTS AND APPEAL ISSUES (Continued)

MEDICARE COST REPORTS

Medicare payment methods changed effective January 1, 1999 for the Facility wherein fixed rates per diagnosis for all services to Medicare patients now apply. The new payment method results in fixed amounts which are not subject to adjustment based on actual costs. An estimate of a receivable or payable based on cost reports is thus no longer applicable. This may be subject to change as a result of further medical record audits.

MEDICAID COST REPORTS

The estimated contractual allowance based on cost report filing results in no receivable or payable. Actual costs approximated expected reimbursement. This may be subject to adjustments as a result of future intermediary field audit procedures.

NOTE 9 - MAINTENANCE OF EFFORT PAYBACKS - MEDICAID

In 1980, the State enacted Public Act 391 which requires counties to pay "Maintenance of Effort" payments to the State. According to the Act's statutory formula, a Maintenance of Effort rate per patient day is established for patients at each medical care facility for each year. This rate is then multiplied by the number of days of nursing home services received by each Medicaid patient in the facility.

Based on their income levels, many Medicaid patients are required to pay a certain amount of each month's care in order to make themselves eligible for the Medicaid program. This results in the patients paying a portion of the month's care from their own resources, with the balance of the month's care then paid through the Medicaid program.

The portion of care paid for through the patient's own funds has been labeled by the State as "Institutional Code" costs. The State Family Independence Agency has determined that, notwithstanding the fact that the patients themselves pay these "Institutional Code" payments rather than the State, days for which care is provided through these funds are to be included in calculating the Maintenance of Effort obligations and counties must pay to the State. The result is that counties reimburse the State for a portion of the funds that the State pays for Medicaid patients at medical care facilities and also for a portion of the funds that are not paid by the State but rather are paid by the patients themselves.

The total Maintenance of Effort (MOE) expenses recognized by Isabella County Medical Care Facility is as follows:

|   | <u>2004</u>       | <u>2003</u>       |
|---|-------------------|-------------------|
| MOE Paid in Cash During Year  | \$ 107,246        | \$ 112,200        |
| Less MOE paid in Current Year for days recorded as Accounts Payable in Prior Year | (18,200)          | (25,087)          |
| Plus MOE incurred for days recorded as Accounts Payable as of September 30        | <u>18,935</u>     | <u>18,200</u>     |
| Total MOE Expense Recognized  | <u>\$ 107,981</u> | <u>\$ 105,313</u> |

The effective MOE rate per day for 2004 and 2003 was \$6.56 and \$6.51, respectively, per patient day.

MEDICAL CARE FACILITY  
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NOTE 10 - SHARED SERVICES FROM CENTRAL MICHIGAN COMMUNITY HOSPITAL

The Medical Care Facility is located adjacent to the unrelated Central Michigan Community Hospital (CMCH). The Facility shares various services with CMCH. The Facility receives dietary service, steam and electricity, and miscellaneous other services from CMCH. The Facility provides a limited amount of physical therapy services to CMCH patients since CMCH has opened their own physical therapy department.

Pursuant to an agreement approved in 1994, the Facility is billed for various services received from CMCH at cost (based on the CMCH Medicare Cost Report with certain modifications). The current agreement is the result of renegotiations during 1993 and 1994 of a similar agreement that had been in place for many years.

Amounts based on the agreement are billed by each party to the other on a monthly basis with an annual reconciliation and adjustment annually. Amounts receivable or payable as a result of the annual settlement/reconciliation have been received or paid through September 30, 2004.

NOTE 11 - MICHIGAN MUNICIPAL EMPLOYEE RETIREMENT SYSTEM

The Isabella County Medical Care Facility participates with Isabella County in the Michigan Municipal Employees Retirement System. The retirement expenditure for 2004 and 2003 totaled \$218,256 and \$205,481 respectively. Payroll amounts and related disclosures are made in Isabella County's financial statements since individual units data is not available.

NOTE 12 - SELF INSURANCE FOR EMPLOYEE HEALTH BENEFITS

Isabella County has established an employee health benefits Self-Insurance Plan in which the Medical Care Facility participates as an employer group.

The Plan is administered under contractual agreement by Blue Cross and Blue Shield of Michigan (BCBSM). The agreement includes a provision for co-insurance whereby the County is responsible for claims incurred up to an agreed-upon ceiling but is insured against further loss by BCBSM. In order to provide for the co-insurance, the County pays a "stop-loss" premium. During 2004 and 2003, the participating employer groups were insured against losses greater than \$50,000 per occurrence, respectively. There is no coverage for aggregate losses under this arrangement. The co-insurance arrangements will be re-negotiated annually with BCBSM.

Isabella County is responsible for collecting the premiums from the participating employer groups and for paying claim settlements, an administrative fee, and the "stop-loss" co-insurance premiums.

In 2004 and 2003, the Medical Care Facility paid premiums to Isabella County for employee health benefit coverage. The expense for employee health benefits incurred in 2004 and 2003 by the Medical Care Facility was \$519,154 and \$473,660.

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
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NOTE 13 - INTERGOVERNMENTAL TRANSFER AGREEMENT

The State of Michigan has created a reimbursement policy for county-owned Class III nursing facilities that include a "Proportionate Share Pool" as part of Michigan's Medicaid program's payment for long-term nursing care services. Transfers are made in proportion to the reported Medicaid days in the cost reporting period ending between January 1 and December 31 based on the proportionate share pool for Class III nursing facilities. The Facility received \$140,328 and \$97,839 in transfers during the years ended September 30, 2004 and 2003. The gains from these transfers is recorded in Non-Operating Revenue.

NOTE 14 - CONTINGENCIES

Grants

Isabella County Medical Care Facility receives financial assistance from local governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and can be subject to audit by the grantor agencies. Any disallowed claims resulting from such audit could become a liability of the Enterprise Fund. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Isabella County Medical Care Facility at September 30, 2004 and 2003.

NOTE 15 - RELATED PARTY TRANSACTIONS

Isabella County Building Authority entered into a contract with Block Electric, whose owner is a direct relative of a member of the Isabella County Medical Care Facility's management, to provide services for the construction project at the Medical Care Facility. The Isabella County Building Authority has control of the project and the Medical Care Faculty has entered into a capital lease with the Building Authority. The total amounts paid by the Isabella County Building Authority to Block Electric for the Medical Care Facility construction project for the years ended September 30, 2004 and 2003 were \$776,985 and \$11,700, respectively. The Medical Care Facility also used Block Electric's services through out the year and as such was paid from the Facility's general operating account. The amounts paid from the Facility's general operating account were immaterial.



OTHER SUPPLEMENTAL INFORMATION

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN  
RETAINED EARNINGS - ENTERPRISE FUND  
YEAR ENDED SEPTEMBER 30, 2004 AND 2003

|  | Schedule 1           |                      |
|--|----------------------|----------------------|
|  | <u>2004</u>          | <u>2003</u>          |
| <u>OPERATING REVENUE</u>                   |                      |                      |
| <u>Inpatient Routine Services</u>          |                      |                      |
| Medicare                                   | \$ 1,033,579         | \$ 1,025,921         |
| Medicaid                                   | 2,814,055            | 2,624,170            |
| Blue Cross                                 | 22,426               | 44,000               |
| Private Pay                                | <u>575,932</u>       | <u>659,260</u>       |
| <br>Total Inpatient Routine Services       | <br>4,445,992        | <br>4,353,351        |
| <u>Other Inpatient</u>                     |                      |                      |
| Drugs                                      | 257,225              | 239,506              |
| Supplies                                   | 105,449              | 123,415              |
| Oxygen                                     | 11,505               | 18,682               |
| Physical Therapy                           | 548,100              | 550,736              |
| Occupational Therapy                       | 274,167              | 149,860              |
| Speech Therapy                             | 101,700              | 24,226               |
| Medicare Ancillary Services                |                      |                      |
| Lab  | 43,110               | 41,838               |
| X-Ray                                      | 14,187               | 24,939               |
| Nuclear                                    | 1,812                | 4,040                |
| EKG  | <u>990</u>           | <u>4,041</u>         |
| <br>Total Other Inpatient Services         | <br><u>1,358,245</u> | <br><u>1,181,283</u> |
| <br>Total Inpatient Services               | <br>5,804,237        | <br>5,534,634        |
| <u>Outpatient Services</u>                 |                      |                      |
| Physical Therapy                           | -                    | 104,803              |
| Occupational Therapy                       | -                    | 5,715                |
| Adult Day Care                             | <u>161,595</u>       | <u>157,179</u>       |
| <br>Total Outpatient Services              | <br><u>161,595</u>   | <br><u>267,697</u>   |
| <br>Total Patient Services Revenue         | <br>5,965,832        | <br>5,802,331        |
| Contractual Allowances - Medicare/Medicaid | (814,323)            | (813,336)            |
| Contractual Allowances - CMCH              | <u>18,555</u>        | <u>14,597</u>        |
| <br>Net Patient Service Revenue            | <br>5,170,064        | <br>5,003,592        |

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN  
RETAINED EARNINGS - ENTERPRISE FUND  
YEAR ENDED SEPTEMBER 30, 2004 AND 2003

Schedule 1

|  | <u>2004</u>    | <u>2003</u>      |
|--|----------------|------------------|
| <u>OPERATING REVENUE (CONTINUED)</u>     |                |                  |
| <u>Charges for Services and Other</u>    |                |                  |
| Barber and Beautician Services           | \$ 11,990      | \$ 11,406        |
| Sales                                    | -              | 1,703            |
| Contractual Service - Physical Therapy   | <u>33,975</u>  | <u>69,646</u>    |
| <br>Total Charges for Services and Other | <br>45,965     | <br>82,755       |
| <br>Prior Year Revenue Adjustments       | <br><u>155</u> | <br><u>3,951</u> |
| <br>TOTAL OPERATING REVENUE              | <br>5,216,184  | <br>5,090,298    |
| <u>OPERATING EXPENSES</u>                |                |                  |
| Administrative and General               |                |                  |
| Salaries                                 | 279,806        | 275,364          |
| Retirement                               | 32,027         | 18,869           |
| Social Security                          | 19,374         | 19,965           |
| Hospitalization Insurance                | 89,972         | 79,332           |
| Workers' Compensation Insurance          | 1,379          | 680              |
| Life and Disability Insurance            | 1,814          | 1,603            |
| Office Supplies                          | 10,433         | 12,066           |
| Printing and Binding                     | 416            | 484              |
| Postage                                  | 2,944          | 2,799            |
| Memberships and Subscriptions            | 3,470          | 3,174            |
| Bank Fees                                | 844            | 14               |
| Contractual Services                     |                |                  |
| Legal                                    | 20,122         | 2,529            |
| Audit and Other                          | 17,820         | 21,670           |
| Other                                    | 6,550          | 12,899           |
| Consultants                              | 17,399         | 12,984           |
| Communications - Telephone               | 11,517         | 10,908           |
| Cable TV                                 | 4,664          | 4,201            |
| Travel                                   | 5,716          | 6,661            |
| Advertising                              | 2,536          | 108              |
| Public Relations                         | 1,051          | 568              |
| Insurance and Bonds                      | 49,896         | 46,231           |
| Office Equipment Repairs and Maintenance | 125            | 308              |
| Employee Training and Improvement        | 70             | 250              |
| Depreciation Expense                     | 25,037         | 25,467           |
| Miscellaneous                            | <u>90</u>      | <u>278</u>       |
| <br>Total Administrative and General     | <br>605,072    | <br>559,412      |

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN  
RETAINED EARNINGS - ENTERPRISE FUND  
YEAR ENDED SEPTEMBER 30, 2004 AND 2003

Schedule 1

|                                       | <u>2004</u>    | <u>2003</u>    |
|---------------------------------------|----------------|----------------|
| <u>OPERATING EXPENSES (CONTINUED)</u> |                |                |
| Plant Operation and Maintenance       |                |                |
| Salaries                              | \$ 114,133     | \$ 111,606     |
| Retirement                            | 10,449         | 10,110         |
| Social Security                       | 8,518          | 8,404          |
| Hospitalization Insurance             | 23,477         | 20,901         |
| Workers' Compensation Insurance       | 4,554          | 3,268          |
| Life and Disability Insurance         | 302            | 321            |
| Maintenance Supplies                  | 10,582         | 7,068          |
| Gas, Oil, and Grease                  | -              | 42             |
| Printing and Binding                  | 182            | 58             |
| Grounds Care and Maintenance          | 7,988          | 2,386          |
| Elevator Maintenance                  | 21,733         | 18,040         |
| Contracted Services                   | 420            | 2,729          |
| Utilities                             | 82,025         | 59,293         |
| Building Repairs and Maintenance      | 2,402          | 2,351          |
| Equipment Repairs and Maintenance     | 13,319         | 5,937          |
| Depreciation Expense                  | 1,378          | 758            |
| Miscellaneous                         | 130            | 286            |
|                                       | <u>301,592</u> | <u>253,558</u> |
| Total Plant Operation and Maintenance | 301,592        | 253,558        |
| Laundry                               |                |                |
| Clothing and Bedding                  | 3,206          | 5,104          |
| Laundry Supplies                      | 3,055          | 3,630          |
| Contractual Services                  | 60,236         | 71,089         |
| Depreciation Expense                  | 149            | 172            |
| Equipment and Repairs Maintenance     | 84             | 913            |
|                                       | <u>66,730</u>  | <u>80,908</u>  |
| Total Laundry                         | 66,730         | 80,908         |
| Housekeeping                          |                |                |
| Salaries                              | 113,185        | 111,331        |
| Retirement                            | 6,042          | 8,088          |
| Social Security                       | 8,556          | 8,490          |
| Hospitalization Insurance             | 36,371         | 36,939         |
| Workers' Compensation Insurance       | 4,554          | 3,268          |
| Health Services                       | -              | 190            |
| Life and Disability Insurance         | 47             | 107            |
| Janitorial Supplies                   | 21,052         | 14,382         |
| Advertising                           | 174            | 193            |
|                                       | <u>189,981</u> | <u>182,988</u> |
| Total Housekeeping                    | 189,981        | 182,988        |

MEDICAL CARE FACILITY  
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RETAINED EARNINGS - ENTERPRISE FUND  
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Schedule 1

|  | <u>2004</u>   | <u>2003</u>   |
|--|---------------|---------------|
| <u>OPERATING EXPENSES (CONTINUED)</u>    |               |               |
| Dietary                                  |               |               |
| Food                                     | \$ 36,558     | \$ 37,619     |
| Kitchen Supplies                         | 474           | 919           |
| Contractual Services                     | 390,141       | 392,382       |
| Contractual Services- Dietician Services | <u>48,383</u> | <u>30,772</u> |
| Total Dietary                            | 475,556       | 461,692       |
| Pharmacy                                 |               |               |
| Prescription and OTC Drugs               | 189,347       | 179,691       |
| Stock Drugs                              | <u>50,537</u> | <u>38,049</u> |
| Total Pharmacy                           | 239,884       | 217,740       |
| Nursing Services                         |               |               |
| Salaries                                 | 2,045,107     | 1,854,161     |
| Retirement                               | 145,218       | 128,266       |
| Social Security                          | 153,250       | 140,249       |
| Hospitalization Insurance                | 300,248       | 259,002       |
| Workers' Compensation Insurance          | 80,753        | 57,878        |
| Health Services                          | 6,790         | 2,866         |
| Life and Disability Insurance            | 5,252         | 4,596         |
| Medical Supplies                         | 30,243        | 36,929        |
| Other Supplies                           | 56,463        | 58,802        |
| Diapers and Pads                         | 33,127        | 30,666        |
| Printing and Binding                     | 1,140         | 2,753         |
| Memberships and Subscriptions            | 937           | 582           |
| Contractual Services                     |               |               |
| Medical Waste Disposal                   | 2,586         | 2,195         |
| Lab/X-Ray                                | 61,516        | 65,118        |
| Medical Records                          | 12,546        | 2,595         |
| Medical Director                         | 18,848        | 18,000        |
| Travel                                   | 830           | 1,990         |
| Advertising                              | 2,673         | 2,900         |
| Public Relations                         | 250           | 40            |
| Equipment Repairs and Maintenance        | 23,729        | 12,943        |
| Employee Training and Improvement        | 6,897         | 5,731         |
| Patient Transportation                   | 40            | 160           |
| Depreciation Expense                     | 42,418        | 43,651        |
| Miscellaneous                            | <u>421</u>    | <u>405</u>    |
| Total Nursing Services                   | 3,031,282     | 2,732,478     |

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN  
RETAINED EARNINGS - ENTERPRISE FUND  
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Schedule 1

|                                       | <u>2004</u>  | <u>2003</u>  |
|---------------------------------------|--------------|--------------|
| <u>OPERATING EXPENSES (CONTINUED)</u> |              |              |
| Physical Therapy                      |              |              |
| Salaries                              | \$ 82,307    | \$ 243,680   |
| Retirement                            | 7,390        | 20,220       |
| Social Security                       | 6,045        | 17,787       |
| Hospitalization Insurance             | 13,857       | 26,547       |
| Workers' Compensation Insurance       | 4,811        | 5,783        |
| Life and Disability Insurance         | 625          | 2,459        |
| Supplies                              | 1,524        | 1,315        |
| Printing and Binding                  | 72           | 340          |
| Memberships and Subscriptions         | -            | 470          |
| Contractual Services                  |              |              |
| Outside Services                      | 110,328      | 312          |
| Travel                                | 815          | 3,244        |
| Advertising                           | 597          | -            |
| Equipment Repairs and Maintenance     | 835          | 720          |
| Employee Training and Improvement     | -            | 595          |
| Bad Debt Expense                      | 5,689        | 42,969       |
| Depreciation Expense                  | 7,792        | 7,844        |
| Miscellaneous                         | <u>146</u>   | <u>119</u>   |
| Total Physical Therapy                | 242,833      | 374,404      |
| Activity Department                   |              |              |
| Salaries                              | 72,966       | 65,864       |
| Retirement                            | 6,042        | 5,055        |
| Social Security                       | 5,332        | 4,922        |
| Hospitalization Insurance             | 24,150       | 18,979       |
| Workers' Compensation Insurance       | 248          | 743          |
| Life and Disability Insurance         | 236          | 214          |
| Supplies                              | 3,431        | 2,409        |
| Memberships and Subscriptions         | 909          | 550          |
| Printing and Binding                  | 62           | 58           |
| Employee Training and Improvement     | -            | -            |
| Depreciation Expense                  | 2,513        | 1,839        |
| Travel                                | 1,074        | 619          |
| Eden Committee                        | <u>2,236</u> | <u>2,253</u> |
| Total Activity Department             | 119,199      | 103,505      |

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN  
RETAINED EARNINGS - ENTERPRISE FUND  
YEAR ENDED SEPTEMBER 30, 2004 AND 2003

Schedule 1

|  | <u>2004</u>  | <u>2003</u> |
|--|--------------|-------------|
| <b><u>OPERATING EXPENSES (CONTINUED)</u></b> |              |             |
| Occupational Therapy                         |              |             |
| Salaries                                     | \$ 23,984    | \$ 46,491   |
| Retirement                                   | 2,274        | 4,044       |
| Social Security                              | 1,708        | 3,320       |
| Hospitalization Insurance                    | 4,619        | 6,157       |
| Workers' Compensation Insurance              | 1,504        | 2,698       |
| Life and Disability Insurance                | 170          | 321         |
| Supplies                                     | 1,717        | 2,207       |
| Printing and Binding                         | 130          | 135         |
| Contractual Services                         | 73,626       | 2,940       |
| Travel                                       | -            | 187         |
| Bad Debt Expense                             | 1,270        | 3,050       |
| Depreciation Expense                         | <u>1,213</u> | <u>907</u>  |
| Total Occupational Therapy                   | 112,215      | 72,457      |
| Speech Therapy                               |              |             |
| Contractual Services                         | 30,612       | 6,814       |
| Supplies                                     | <u>518</u>   | <u>46</u>   |
| Total Speech Therapy                         | 31,130       | 6,860       |
| Barber and Beautician                        |              |             |
| Workers' Compensation Insurance              | 248          | 100         |
| Supplies                                     | 226          | 358         |
| Contracted Services                          | 9,499        | 8,654       |
| Depreciation Expense                         | <u>139</u>   | <u>139</u>  |
| Total Barber and Beautician                  | 10,112       | 9,251       |
| Social Services                              |              |             |
| Salaries                                     | 98,714       | 97,475      |
| Social Security                              | 16,552       | 13,694      |
| Hospitalization Insurance                    | -            | 8,471       |
| Workers' Compensation Insurance              | 248          | 303         |
| Life and Disability Insurance                | 699          | 748         |
| Supplies                                     | 874          | 217         |
| Employee Training and Improvement            | <u>460</u>   | <u>222</u>  |
| Total Social Services                        | 117,547      | 121,130     |

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN  
RETAINED EARNINGS - ENTERPRISE FUND  
YEAR ENDED SEPTEMBER 30, 2004 AND 2003

Schedule 1

|  | <u>2004</u>      | <u>2003</u>      |
|--|------------------|------------------|
| <u>OPERATING EXPENSES (CONTINUED)</u>                  |                  |                  |
| Adult Day Care   |                  |                  |
| Salaries   | \$ 114,357       | \$ 93,460        |
| Retirement   | 8,814            | 8,088            |
| Social Security  | 8,498            | 6,790            |
| Hospitalization Insurance                              | 26,460           | 21,186           |
| Workers' Compensation Insurance                        | 495              | 616              |
| Life and Disability Insurance                          | 302              | 321              |
| Supplies   | 2,766            | 502              |
| Printing and Binding                                   | 136              | -                |
| Raw Food   | 1,905            | 1,598            |
| Client Meals   | 8,505            | 6,209            |
| Memberships and Subscriptions                          | 273              | 200              |
| Contracted Services                                    | 725              | 2,550            |
| Communications - Telephone                             | 773              | 276              |
| Travel   | 50               | 287              |
| Transportation   | 2,726            | 3,263            |
| Advertising  | 2,458            | 2,287            |
| Equipment Repairs and Maintenance                      | 66               | 240              |
| Rental - Building                                      | 36,000           | 36,000           |
| Depreciation Expense                                   | <u>2,332</u>     | <u>1,883</u>     |
| Total Adult Day Care                                   | 217,641          | 185,756          |
| Ancillary Services                                     |                  |                  |
| Dental   | -                | 1,200            |
| Miscellaneous  |                  |                  |
| Maintenance of Effort                                  | 107,981          | 105,313          |
| Refunds and Other                                      | 23,077           | 14,441           |
| Depreciation Expense                                   | 582              | 401              |
| Miscellaneous  | 164              | 141              |
| Professional Fees                                      | <u>-</u>         | <u>-</u>         |
| Total Miscellaneous                                    | <u>131,804</u>   | <u>120,296</u>   |
| TOTAL OPERATING EXPENSES                               | <u>5,892,578</u> | <u>5,483,635</u> |
| Operating Income (Loss) Before Depreciation - Building | (676,394)        | (393,337)        |
| Less Depreciation - Building                           | <u>(79,667)</u>  | <u>(80,072)</u>  |
| OPERATING INCOME (LOSS)                                | (756,061)        | (473,409)        |



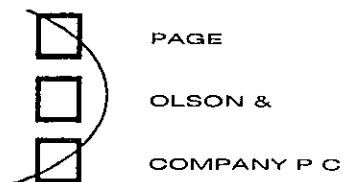
MEDICAL CARE FACILITY  
ISABELLA COUNTY  
COMPARATIVE STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN  
RETAINED EARNINGS - ENTERPRISE FUND  
YEAR ENDED SEPTEMBER 30, 2004 AND 2003

|  | Schedule 1          |                     |
|--|---------------------|---------------------|
|  | <u>2004</u>         | <u>2003</u>         |
| <u>NON-OPERATING REVENUE (EXPENSES)</u>          |                     |                     |
| Interest Revenue                                 | \$ 112,548          | \$ 113,655          |
| Property Tax Revenue                             | 1,005,052           | 1,051,974           |
| Rental Income                                    |                     |                     |
| Building   | 36,000              | 36,000              |
| Other  |                     |                     |
| Intergovernmental Transfer In                    | 4,800,575           | 7,510,679           |
| Intergovernmental Transfer Payment               | (4,658,477)         | (7,410,609)         |
| Intergovernmental Transfer Management Fee        | <u>(1,770)</u>      | <u>(2,231)</u>      |
| Total Other                                      | <u>140,328</u>      | <u>97,839</u>       |
| TOTAL NON-OPERATING REVENUE (EXPENSE)            | 1,293,928           | 1,299,468           |
| <u>OTHER FINANCING SOURCES (USES)</u>            |                     |                     |
| Contributions from Saginaw Chippewa Indian Tribe | 40,042              | 21,617              |
| Private Donations                                | <u>7,448</u>        | <u>20,403</u>       |
| TOTAL OTHER FINANCING SOURCES (USES)             | <u>47,490</u>       | <u>42,020</u>       |
| NET INCOME (LOSS)                                | 585,357             | 868,079             |
| RETAINED EARNINGS - OCTOBER 1                    | <u>5,051,375</u>    | <u>4,183,296</u>    |
| RETAINED EARNINGS - SEPTEMBER 30                 | <u>\$ 5,636,732</u> | <u>\$ 5,051,375</u> |

MEDICAL CARE FACILITY  
ISABELLA COUNTY  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
YEAR ENDED SEPTEMBER 30, 2004

Schedule 2

|  | <u>Balance</u><br><u>09/30/02</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u><br><u>09/30/03</u> |
|--|-----------------------------------|------------------|-------------------|-----------------------------------|
| <u>Patient Agency Fund</u>             |                                   |                  |                   |                                   |
| ASSETS                                 |                                   |                  |                   |                                   |
| Cash and Investments                   | \$ 739                            | \$ 2,141         | \$ 2,055          | \$ 825                            |
| LIABILITIES                            |                                   |                  |                   |                                   |
| Due To Patients                        | \$ 586                            | \$ 1,412         | \$ 1,627          | \$ 371                            |
| Due To Medical Care Facility Operating | 153                               | 729              | 428               | 454                               |
| TOTAL LIABILITIES                      | \$ 739                            | \$ 2,141         | \$ 2,055          | \$ 825                            |



REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS*

January 11, 2005

Family Independence Agency Board  
Medical Care Facility  
Isabella County, Michigan

We have audited the financial statements of Medical Care Facility, Isabella County, as of and for the year ended September 30, 2004, and have issued our report thereon dated January 11, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the Medical Care Facility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Medical Care Facility's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Facility's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described as follows:

In several instances, inventory levels reported in the Facility's inventory system do not agree with the physical count. While the aggregate of the variances is immaterial, the Facility should take steps to investigate this situation in more detail and adjust policies and procedures to ensure that inventory assets are being thoroughly safeguarded.

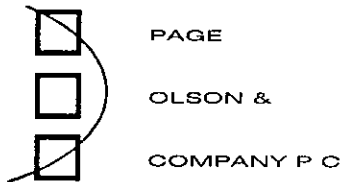
Family Independence Agency Board  
Medical Care Facility

Page 2  
January 11, 2005

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in the relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Page, Olson & Company*



**AUDIT COMMUNICATION AND  
REPORT OF COMMENTS AND RECOMMENDATIONS**

January 11, 2005

Family Independence Agency  
Board of Directors  
Isabella County Medical Care Facility  
Mt. Pleasant, MI 48858

We have recently completed our audit of the financial statements of Isabella County Medical Care Facility for the year ended September 30, 2004. As required by auditing standards generally accepted in the United States of America, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

**AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE  
UNITED STATES OF AMERICA**

We conducted our audit of the financial statements of Isabella County Medical Care Facility in accordance with auditing standards generally accepted in the United States of America. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

Auditing standards call for us to inform you regarding the initial selection of, and changes in, significant accounting policies or their application. In addition, we are expected to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

The significant accounting policies are described in Note 1 to the financial statements.

### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have the following related to the above to report at this time:

#### **Estimates**

Management estimates that 65 percent of the remaining prior year outstanding outpatient physical therapy receivables and 20 percent of the current year are considered to be uncollectible. Management also estimates that \$15,000 of the inpatient receivable is also uncollectible.

### **Audit Adjustments**

Various adjustments are made at fiscal year-end to record the capital project activity including recording the ending cash, the additional to the construction in progress and the property taxes receivable. Such adjustments are part of the year-end accounting process. We expect management to provide the information that comprises these amounts so we can apply auditing procedures to satisfy ourselves that the information is corroborated.

### **COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/EFFICIENCY**

In planning and performing our audit of the financial statements of the Medical Care Facility, for the year ended September 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Facility's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that we believe to be material weaknesses.

There were no matters that we believe to be reportable conditions other than those already reported in the Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* which is on pages 43 and 44 of the financial statements.

### **SUMMARY**

We would like to thank the Isabella County Medical Care Facility personnel and Officials for the cooperation we received from them throughout the course of the audit. We welcome any questions you may have regarding the foregoing comments, and we would be happy to discuss any of these or other questions that you might have at your convenience.

This communication is intended for the information of the members of the Facility's Board, management, the State of Michigan, and Isabella County, and is not intended to be and should not be used by anyone other than these specified parties.

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